

**CITY OF CLEVELAND, OKLAHOMA
CLEVELAND, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS
AND ACCOMPANYING
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2020**



City of Cleveland, Oklahoma
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Year Ended June 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Cleveland, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cleveland, Oklahoma, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Cleveland, Oklahoma, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-10 and 45-46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cleveland, Oklahoma's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

FSW&B CPAs-PLLC

FSW&B CPAs-PLLC

Stillwater, OK
June 7, 2021

Our discussion and analysis of the City of Cleveland's ("City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2020. The City's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. This discussion focuses on the City's primary government, and unless otherwise noted, component units reported separately from the primary government are not included. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- At June 30, 2020, the assets of the City exceeded its liabilities by \$10,295,624 (net position) compared to \$10,445,426, after prior period adjustment, noting a decrease over prior year.
- The City's total net position is comprised of the following:
 - (1) Net investment in capital assets of \$4,764,840 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase of construction of capital assets.
 - (2) Restricted net position of \$1,949,279.
 - (3) Unrestricted net position of \$3,581,505 may be used to meet the City's ongoing obligations to citizens and creditors.
- Net position of governmental activities decreased \$1,021,895 or 40%, and net position of business-type activities increased \$862,093 or 11%. Refer to discussion below regarding the change in net position. Overall, the health of the City decreased approximately 1.4% when compared to prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City's annual reporting includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Position*. This is the City-wide statement of financial position presenting information that includes all of the City's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indication of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other financial factors such as diversification of the taxpayer base or the condition of the City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*, which reports how the City's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinctively report governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, and business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities includes general government; public safety and judiciary; transportation; and cultural, parks, and recreation. Business-types activities include utility services, including gas, sewer, water, and sanitation, provided by the City.

The City's financial reporting entity includes the funds of the City (primary government) and organization for which the City is accountable (component units). More comprehensive information about the City's component units can be found in footnotes.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole.

The City has two kinds of funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is different with fund statements reporting short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Budgetary comparison statement is included in the basic financial statement for governmental funds deemed as major. This statement demonstrates compliance with the City's adopted and final revised budget.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. The City has one type of proprietary fund, enterprise funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization such as water, sanitation, and sewer utilities.

Proprietary fund statements and statements for discretely presented component units (reporting similarly to proprietary funds) provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. Those notes to the financial statement begin immediately following the basic financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report presents certain *Required Supplementary Information* concerning the City's compliance with the approved and revised budget for major governmental funds.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's combined net position decreased between fiscal years 2019 and 2020, noting a \$150,802 or 1.4% change, prior to a prior period adjustment of (\$2,676,711) and \$529,214 for governmental and business-type activities, respectively. Refer to discussion of the prior period adjustments in the footnotes to the financial statements. The following table provides a summary of the City's net position at June 30:

	Summary of Net Position (in thousands)							
	Governmental Activities		Business-Type Activities		Total		Change	
	2020	2019	2020	2019	2020	2019	\$	%
Current assets	\$ 955	\$ 761	\$ 9,713	\$ 9,315	\$ 10,668	\$ 10,076	\$ 592	6%
Capital assets, net	1,754	4,456	8,366	7,343	10,120	11,799	(1,679)	-14%
Total assets	2,709	5,217	18,079	16,658	20,788	21,875	(1,087)	-5%
Deferred outflow of resources	684	-	-	-	684	-	684	100%
Current liabilities	62	32	664	306	726	338	388	115%
Non-current liabilities	1,607	-	8,615	8,944	10,222	8,944	1,278	14%
Total liabilities	1,669	32	9,279	9,250	10,948	9,282	1,666	18%
Deferred inflow of resources	228	-	-	-	228	-	228	100%
Net position								
Net investment in capital assets	1,675	4,456	3,090	(2,756)	4,765	1,700	3,065	180%
Restricted	329	627	1,620	-	1,949	627	1,322	211%
Unrestricted	(508)	102	4,090	10,164	3,582	10,266	(6,684)	-65%
Total net position	\$ 1,496	\$ 5,185	\$ 8,800	\$ 7,408	\$ 10,296	\$ 12,593	\$ (2,297)	-18%

* Prior year report issued by another auditor

The City reported positive balances in net position for both governmental and business-type activities. Total assets for the City decreased with a 5% change, or \$1,087,000, over prior year. Most of the decrease was noted in net capital assets as assets were adjusted to an estimated depreciated value. The City reported an increase in deferred outflows are related to the City's pension plans as discussed in the footnotes. The deferrals are calculated by a third-party actuary and reported annually by the City in the accrual-basis financials; this analysis was not completed for fiscal year 2019.

The City's total liabilities increased 18% when compared to prior year. This is related to the reporting of the City's pension liability in the current year. The pension liability is determined by a third-party actuarial valuation and reported to the City on an annual basis. As noted above, the actuarial valuation was not performed for 2019. During the year the City made regularly scheduled payments on outstanding debt, totaling \$326 thousand for the fiscal year.

Changes in Net Position

For the year ended June 30, 2020, net position of the primary government changed as follows:

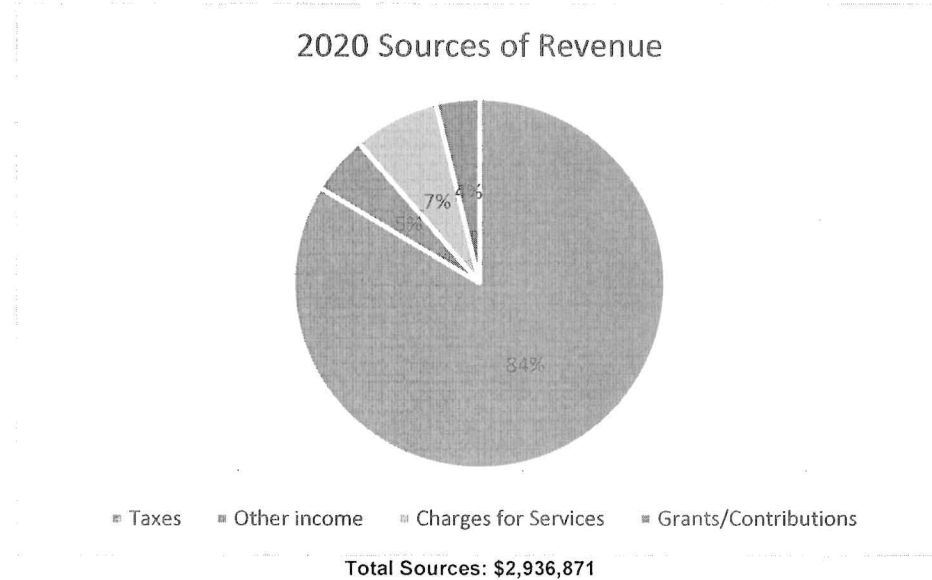
	Summary of Changes in Net Position							
	Governmental		Business-type		Total		Change	
	2020	2019	2020	2019	2020	2019	\$	%
Revenues								
Program revenues	\$ 331	\$ 475	\$ 3,855	\$ 3,636	\$ 4,186	\$ 4,111	\$ 75	2%
Taxes and other general revenues	1,461	2,311	116	683	1,577	2,994	(1,417)	-47%
Total revenues	1,792	2,786	3,971	4,319	5,763	7,105	(1,342)	-19%
Expenses								
General government	187	280	-	-	187	280	(93)	-33%
Public safety and judiciary	1,288	1,254	-	-	1,288	1,254	34	3%
Transportation	135	130	-	-	135	130.00	5	4%
Cultural, parks, and recreation	364	318	-	-	364	318	46	14%
Public service	-	540	-	-	0	540	(540)	-100%
Economic development	-	-	-	-	0	0	-	#DIV/0!
Utilities	-	-	2,718	2,590	2,718	2,590	128	5%
Airport	-	-	51	48	51	48	3	6%
Customer service	-	-	617	1,147	617	1,147	(530)	-46%
Industrial development	-	-	-	1	0	1	(1)	-100%
Total expenses	1,974	2,522	3,386	3,786	5,360	6,308	(948)	-15%
Excess (deficiency) before transfers	\$ (182)	\$ 264	\$ 585	\$ 533	\$ 403	\$ 797	\$ (394)	-49%
Transfer to other governments	(554)	-	-	-	(554)	-	(554)	100%
Transfers	(277)	(70)	277	70	-	-	-	0%
Increase (decrease) in net position	\$ (1,013)	\$ 194	\$ 862	\$ 603	\$ (151)	\$ 797	\$ (948)	-119%

* Prior year report issued by another auditor

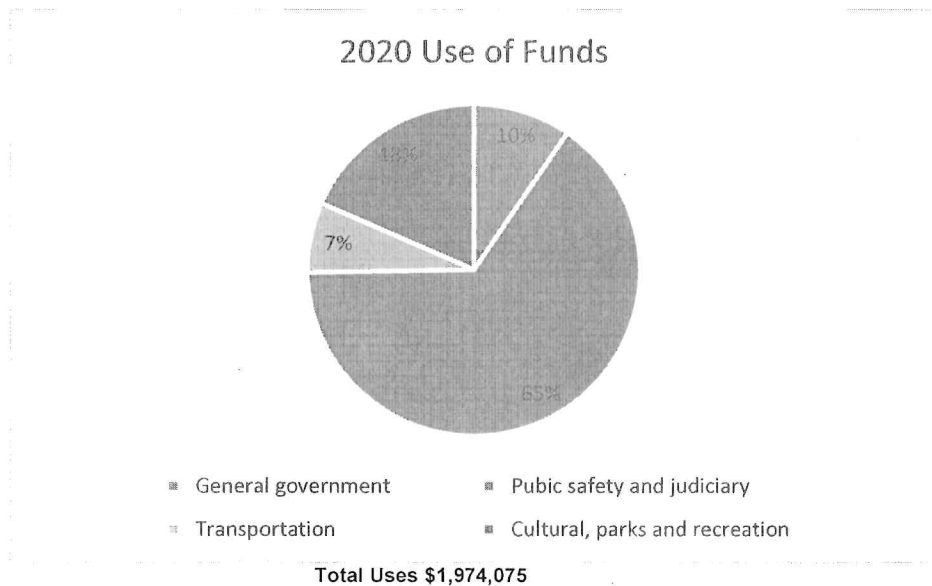
Total revenues for the City decreased 19% when compared to prior year. The decrease is due to a change in the pension obligation of the City of \$1,145 thousand dollars. Program revenues of the City, including charges for services and grant funding remained consistent year over year, noting a 2% change.

Operating expenses declined when compared to prior year, noting a \$948 thousand dollar or 15% decrease. As fiscal year 2020 saw new management in the City, departmental spending was adjusted.

Graphic presentations of selected data from the summary table follow to assist in the analysis of the City's activities.



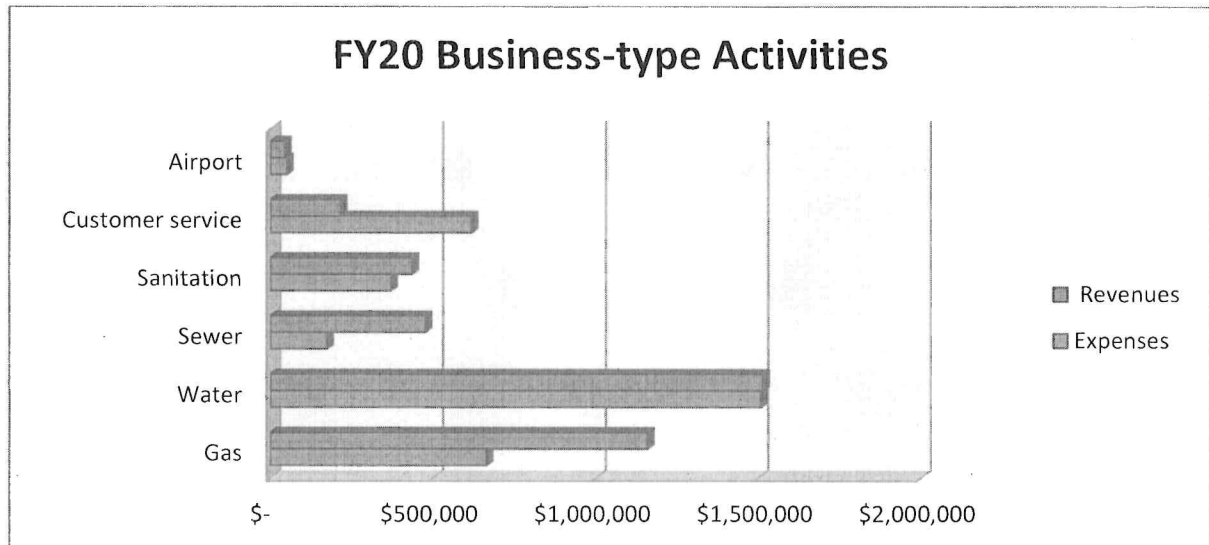
Taxes provided for 84% of the City's governmental revenues in fiscal year 2020. Sales tax was the largest portion of tax income at \$1,978,274.



For the year ended June 30, 2020, public safety, and judiciary at \$1,288,332, was the largest operating service department. The next largest operating cost was culture, parks, and recreations at 18% of the total cost of services for the City government. These costs, as well as all other governmental activity expenses, were primarily funded by tax revenues.

It should be noted that governmental expenses are adjusted from the fund statements to the government-wide statements for the purchase and construction of capital assets. Government-wide statement is full accrual; capital outlay expenses are eliminated, and capital assets are reported.

Business-type Activities



Business-type activities are shown comparing costs to revenues generated by the related services. Gas, Sanitation, Sewer, and Water activities are intended to be self-supporting with user charges and other revenues designed to recover costs. Other activities provide services with minimal user charges.

General Fund Budgetary Highlights

The City's amended General Fund budget for fiscal year 2020 was \$2,056,000. The General Fund actual expenses for the year totaled \$1,649,651. The General Fund budget complied with financial policies approved by the City.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2020, the City had \$4,764,840 net investment in capital assets, including vehicles and equipment for police and fire operations, street improvements, and park facilities, in governmental activities and water lines and sewer lines in business-type activities. Refer to the table below.

Primary Government Capital Assets			
(in thousands)			
	Governmental Activities 2020	Business-type Activities 2020	Total 2020
Land and CIP	\$ -	\$ 2,517	\$ 2,517
Machinery & equipment	24	1,134	1,158
Utility property & improvements	5,612	12,049	17,661
Total cost	\$ 5,636	\$ 15,700	\$ 21,336
Accumulated depreciation	3,961	7,334	11,295
Total capital assets, net	\$ 1,675	\$ 8,366	\$ 10,041

- Significant purchases in fiscal year 2020 included: a library expansion project, additional work on the swimming pool, water system improvements, south lift station pump repairs, and 2019 Ford vehicle in the water department.

Long-Term Debt

At year-end, the City had \$10,222,562 in long-term debt outstanding, detailed below.

Primary Government Long-Term Liabilities							
	Governmental Activities		Business-type Activities		Total		
	2020	2019	2020	2019	2020	2019	
Notes payable	\$ -	\$ -	\$ 8,976	\$ 9,255	\$ 8,976	\$ 9,255	
Lease payable	-	-	-	-	-	-	
Pension obligation	1,607	-	-	-	1,607	-	
Premium on debt issuance	-	-	-	-	-	-	
less current portion	-	-	(361)	(306)	(361)	(306)	
Total long term debt	\$ 1,607	\$ -	\$ 8,615	\$ 8,949	\$ 10,222	\$ 8,949	

ECONOMIC FACTORS AND NEXT YEARS'S BUDGET AND RATES

Economic Environment

According to the Oklahoma State University, Spears School of Business, *Economic Outlook 2020 Summer Update: The Virus Rules* "Oklahoma has experienced dramatic economic fallout from both the business shutdowns associated with the COVID-19 pandemic and the collapse of the energy sector." The City was aware of the economic forecast when we prepared the fiscal year 2021 budget and made proactive changes to expected revenue collections and, correspondingly, expenses for the upcoming year.

The *Economic Outlook* stated "the Oklahoma economy has fared better than the national economy during the second quarter of the year" of calendar year 2020. And "despite dramatic losses in wages and salaries in both the state and nation during the second quarter, personal income exploded because of the massive fiscal stimulus by the federal government". It is further forecasted that "personal income growth is projected to completely reverse course in the third quarter, with further losses projected in the fourth quarter" as a result of the declining stimulus funding.

Next Year's Budget

Management is committed to provide a consistent level of service to citizens while improving the infrastructure and recreation opportunities of the community within the current constraints.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's Office at Cleveland City Hall, 105 W Caddo St, Cleveland, Oklahoma, 74020.

City of Cleveland, Oklahoma
Statement of Net Position
June 30, 2020

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 368,749	\$ 449,553	\$ 818,302
Accounts receivable (net)	-	275,178	275,178
Taxes receivables	248,538	-	248,538
Other receivables	7,855	81,414	89,269
Inventory	-	305	305
Total current assets	<u>625,142</u>	<u>806,450</u>	<u>1,431,592</u>
Restricted assets:			
Cash and cash equivalents	246,878	924,948	1,171,826
Investments	82,661	7,981,279	8,063,940
Total restricted assets	<u>329,539</u>	<u>8,906,227</u>	<u>9,235,766</u>
Noncurrent Assets:			
Other assets	73,300	-	73,300
Land and construction in progress	-	2,516,995	2,516,995
Other capital assets (net of accumulated depreciation)	1,674,937	5,849,448	7,524,385
Pension asset	5,930	-	5,930
Total noncurrent assets	<u>1,754,167</u>	<u>8,366,443</u>	<u>10,120,610</u>
Total assets	<u>\$ 2,708,848</u>	<u>\$ 18,079,120</u>	<u>\$ 20,787,968</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred charges on pension obligations	<u>684,297</u>	<u>-</u>	<u>684,297</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 2,676	\$ 6,834	\$ 9,510
Other accrued liabilities	-	735	735
Accrued salary and vacation payable	-	37,547	37,547
Payroll taxes payable	59,411	-	59,411
Deferred revenue	-	1,418	1,418
Notes payable, current	-	196,291	196,291
Total current liabilities	<u>62,087</u>	<u>242,825</u>	<u>304,912</u>
Liabilities payable from restricted assets:			
Customer deposits payable	-	256,530	256,530
Bonds payable, current	-	165,000	165,000
Total liabilities payable from restricted assets	<u>-</u>	<u>421,530</u>	<u>421,530</u>
Noncurrent liabilities:			
Notes payable, non-current	-	1,220,197	1,220,197
Bonds payable, non-current	-	7,395,000	7,395,000
Pension liability	1,607,365	-	1,607,365
Total noncurrent liabilities	<u>1,607,365</u>	<u>8,615,197</u>	<u>10,222,562</u>
Total liabilities	<u>1,669,452</u>	<u>9,279,552</u>	<u>10,949,004</u>
DEFERRED INFLOW OF RESOURCES			
Deferred charges on pension obligations	<u>227,637</u>	<u>-</u>	<u>227,637</u>
NET POSITION			
Net investment in capital assets	1,674,937	3,089,903	4,764,840
Reserved for restricted purposes	329,539	1,619,740	1,949,279
Unrestricted	(508,420)	4,089,925	3,581,505
Total net position	<u>\$ 1,496,056</u>	<u>\$ 8,799,568</u>	<u>\$ 10,295,624</u>

City of Cleveland, Oklahoma
Statement of Activities
Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	
Governmental activities:					
General government:					
General government	\$ 90,668	\$ 5,482	\$ 1,095	\$ -	\$ (84,091)
City clerk	90,292	-	-	-	(90,292)
City treasurer	6,300	-	-	-	(6,300)
Total general government	187,260	5,482	1,095	-	(180,683)
Public safety and judiciary:					
Police	638,323	82,307	500	-	(555,516)
Fire	343,486	5,872	9,270	-	(328,344)
Ambulance	150,000	92,200	-	-	(57,800)
Municipal court	75,011	1,899	-	-	(73,112)
City attorney	27,933	-	-	-	(27,933)
911 operations	53,579	-	-	-	(53,579)
Total public safety and judiciary	1,288,332	182,278	9,770	-	(1,096,284)
Transportation:					
Street	134,432	-	27,440	-	(106,992)
Total transportation	134,432	-	27,440	-	(106,992)
Cultural, parks and recreation:					
Park	90,583	5,364	63,226	-	(21,993)
Library	188,796	3,852	10,923	-	(174,021)
Cemetery	47,806	22,200	-	-	(25,606)
Community center	36,867	-	-	-	(36,867)
Total cultural, parks and recreation	364,051	31,416	74,149	-	(258,486)
Total governmental activities	1,974,075	219,176	112,454	-	(1,642,445)
Business-type activities:					
Utility services:					
Gas	663,240	1,158,985	-	-	495,745
Water	1,509,065	1,514,713	-	-	5,648
Sewer	174,137	476,542	-	-	302,405
Sanitation	372,042	436,471	-	-	64,429
Customer service	617,467	212,274	3,759	-	(401,434)
Education facilities	-	7,895	-	-	7,895
Airport	50,744	9,000	-	35,814	(5,930)
Total business-type activities	3,386,695	3,815,880	3,759	35,814	468,758
Total	\$ 5,360,770	\$ 4,035,056	\$ 116,213	\$ 35,814	\$ (1,173,687)

City of Cleveland, Oklahoma
Statement of Activities (continued)
Year Ended June 30, 2020

Changes in Net Position:

	Governmental Activities	Business-type Activities	Total
Net (expense)/revenue	\$ (1,642,445)	\$ 468,758	\$ (1,173,687)
General revenues:			
Taxes:			
Sales tax	1,978,274	-	1,978,274
Use tax	200,961	-	200,961
Franchise taxes	72,824	-	72,824
Hotel/Motel tax	5,285	-	5,285
Other taxes	198,540	-	198,540
Investment income	4,186	116,363	120,549
Royalties	16,110	-	16,110
Other income	129,061	-	129,061
Pension change	(1,144,775)	-	(1,144,775)
Transfers-Internal activity	(276,972)	276,972	-
Transfers to other governments	(553,944)	-	(553,944)
Total general revenues and transfers	<u>629,550</u>	<u>393,335</u>	<u>1,022,885</u>
Change in net position	(1,012,895)	862,093	(150,802)
Net position-beginning, restated	2,508,951	7,937,475	10,446,426
Net position-ending	<u>\$ 1,496,056</u>	<u>\$ 8,799,568</u>	<u>\$ 10,295,624</u>

City of Cleveland, Oklahoma
Balance Sheet
Governmental Funds
June 30, 2020

	General Fund	Library Memorial	Non-Major Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 368,749	\$ -	\$ -	\$ 368,749
Cash and investments, restricted	62,293	22,652	244,594	329,539
Taxes receivable	248,538	-	-	248,538
Fines receivable	7,855	-	-	7,855
Prepaid assets	73,300	-	-	73,300
Total assets	<u>\$ 760,735</u>	<u>\$ 22,652</u>	<u>\$ 244,594</u>	<u>\$ 1,027,981</u>
LIABILITIES				
Accounts payable	\$ 2,676	\$ -	\$ -	\$ 2,676
Accrued payroll liabilities	59,411	-	-	59,411
Total liabilities	<u>62,087</u>	<u>-</u>	<u>-</u>	<u>62,087</u>
FUND BALANCES				
Restricted	-	-	129,153	129,153
Committed	22,505	22,652	115,441	160,598
Assigned	39,787	-	-	39,787
Unassigned	636,356	-	-	636,356
Total fund balances	<u>698,648</u>	<u>22,652</u>	<u>244,594</u>	<u>965,894</u>
Total liabilities and fund balances	<u>\$ 760,735</u>	<u>\$ 22,652</u>	<u>\$ 244,594</u>	<u>\$ 1,027,981</u>
Total fund balance- total governmental funds				\$ 965,894

Amounts reported for governmental activities in the Statement of Net Position are different because:

Land and capital assets, net of accumulated depreciation, are not financial resources and, therefore, are not reported in the funds.

Land and construction in process	\$ -	
Capital assets	5,635,798	
Less: Accumulated depreciation	<u>(3,960,861)</u>	1,674,937

Long-term liabilities are not due and payable in the current period and are not reported in the funds.

Net pension related deferred (inflows)	456,660	
Net pension obligation	<u>(1,601,435)</u>	(1,144,775)

Net position of governmental activities	<u>\$ 1,496,056</u>
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City of Cleveland, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
June 30, 2020

	General Fund	Library Memorial Fund	Non-Major Funds	Total Governmental Funds
REVENUES				
Sales tax	\$ 1,978,274	\$ -	\$ -	\$ 1,978,274
Use tax	200,961	-	-	200,961
Franchise tax	72,824	-	-	72,824
Hotel/motel tax	5,285	-	-	5,285
Other taxes	198,540	-	-	198,540
Licenses and permits	5,031	-	-	5,031
Rents	452	-	4,800	5,252
Royalties	-	16,110	-	16,110
Fines and forfeitures	84,336	-	-	84,336
Charges for services	119,336	-	5,221	124,557
Intergovernmental revenues	28,535	6,176	66,146	100,857
Donations	1,650	4,747	5,200	11,597
Other revenues	128,619	-	442	129,061
Interest	1,520	389	2,277	4,186
Total revenues	2,825,363	27,422	84,086	2,936,871
EXPENDITURES				
General government:				
General government	67,805	-	-	67,805
City clerk	90,292	-	-	90,292
City treasurer	6,300	-	-	6,300
Total general government	164,397	-	-	164,397
Public safety and judiciary:				
Police	573,184	-	5,977	579,161
Fire	338,939	-	-	338,939
Ambulance	150,000	-	-	150,000
Municipal court	75,011	-	-	75,011
City attorney	27,933	-	-	27,933
911 operations	53,579	-	-	53,579
Total public safety and judiciary	1,218,646	-	5,977	1,224,623
Transportation:				
Street	85,914	-	-	85,914
Total transportation	85,914	-	-	85,914
Cultural, parks and recreation:				
Park	38,140	-	9,298	47,438
Library	123,361	17,431	-	140,792
Cemetery	40,486	-	-	40,486
Community center	-	-	-	-
Total cultural, parks and recreation	201,987	17,431	9,298	228,716
Capital outlay	40,794	298,055	-	338,849
Total expenditures	1,711,738	315,486	15,275	2,042,499
Excess (deficiency) of revenues over expenditures	1,113,625	(288,064)	68,811	894,372
OTHER FINANCING SOURCES (USES)				
Transfers in	7,986	-	(7,961)	25
Transfers out	(276,972)	(25)	-	(276,997)
Transfers to other governments	(553,944)	-	-	(553,944)
Total other financing sources and uses	(822,930)	(25)	(7,961)	(830,916)
Net change in fund balances	290,695	(288,089)	60,850	63,456
Fund balances - beginning	235,202	310,741	190,643	736,586
Prior period adjustment	172,751	-	(6,899)	165,852
Fund balances - ending	\$ 698,648	\$ 22,652	\$ 244,594	\$ 965,894

City of Cleveland, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
June 30, 2020

Net change in fund balances - total governmental funds	\$	63,456
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital asset purchases	338,849	
Depreciation expense	<u>(270,425)</u>	68,424

In the statement of activities, the cost of pension benefits earned net of employee contributions are reported as an component of pension expense.

The fund financial statements report pension contributions as expenditures.	<u>(1,144,775)</u>
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Change in Net Position of Governmental Activities	<u><u>\$ (1,012,895)</u></u>
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City of Cleveland, Oklahoma
Statement of Fund Net Position
Proprietary Funds
June 30, 2020

	Municipal Authority	Airport Authority	Education Facility Authority	Total Enterprise Funds
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 449,553	\$ -	\$ -	\$ 449,553
Accounts receivable	311,179	-	-	311,179
Allowance for doubtful accounts	(36,001)	-	-	(36,001)
Note receivable	81,414	-	-	81,414
Inventory	305	-	-	305
Total current assets	<u>806,450</u>	<u>-</u>	<u>-</u>	<u>806,450</u>
Current assets:				
Restricted assets:				
Cash, including time deposits	869,158	22,151	33,639	924,948
Investments	7,981,279	-	-	7,981,279
Total restricted assets	<u>8,850,437</u>	<u>22,151</u>	<u>33,639</u>	<u>8,906,227</u>
Noncurrent assets:				
Capital assets (net)	7,064,562	1,301,881	-	8,366,443
Total noncurrent assets	<u>7,064,562</u>	<u>1,301,881</u>	<u>-</u>	<u>8,366,443</u>
Total assets	<u>\$ 16,721,449</u>	<u>\$ 1,324,032</u>	<u>\$ 33,639</u>	<u>\$ 18,079,120</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 6,834	\$ -	\$ -	\$ 6,834
Sales tax payable	735	-	-	735
Payroll liabilities	37,547	-	-	37,547
Deferred revenue	1,418	-	-	1,418
Notes payable, current	196,291	-	-	196,291
Total current liabilities	<u>242,825</u>	<u>-</u>	<u>-</u>	<u>242,825</u>
Liabilities payable from restricted assets:				
Customer deposits payable	256,530	-	-	256,530
Bonds payable, current	165,000	-	-	165,000
Total liabilities payable from restricted assets	<u>421,530</u>	<u>-</u>	<u>-</u>	<u>421,530</u>
Noncurrent liabilities:				
Notes payable, non-current	1,220,197	-	-	1,220,197
Bonds payable, non-current	7,395,000	-	-	7,395,000
Total noncurrent liabilities	<u>8,615,197</u>	<u>-</u>	<u>-</u>	<u>8,615,197</u>
Total liabilities	<u>9,279,552</u>	<u>-</u>	<u>-</u>	<u>9,279,552</u>
NET POSITION				
Net investment in capital assets	12,878,771	1,301,881	-	14,180,652
Restricted	1,619,740	-	-	1,619,740
Unrestricted	(7,056,614)	22,151	33,639	(7,000,824)
Total net position	<u>\$ 7,441,897</u>	<u>\$ 1,324,032</u>	<u>\$ 33,639</u>	<u>\$ 8,799,568</u>

City of Cleveland, Oklahoma
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2020

	Municipal Authority	Airport Authority	Education Facility Authority	Total Enterprise Funds
<u>Operating revenues:</u>				
Charges for services:				
Gas charges	\$ 1,158,985	\$ -	\$ -	\$ 1,158,985
Water charges	1,514,713	-	-	1,514,713
Sewer charges	476,542	-	-	476,542
Sanitation charges	436,471	-	-	436,471
Penalties	59,475	-	-	59,475
Total charges for services	3,646,186	-	-	3,646,186
Service charges	-	-	7,895	7,895
Lease and rental income	6,915	9,000	-	15,915
Other fees and charges	145,884	-	-	145,884
Total operating revenues	3,798,985	9,000	7,895	3,815,880
<u>Operating expenses:</u>				
Personal services	794,475	-	-	794,475
Materials and supplies	95,873	296	-	96,169
Purchases for resale	307,885	-	-	307,885
Other services and charges	1,442,178	-	-	1,442,178
Depreciation	293,884	50,448	-	344,332
Total operating expenses	2,934,295	50,744	-	2,985,039
Net operating income	864,690	(41,744)	7,895	830,841
<u>Nonoperating revenue (expense):</u>				
Investment income	116,186	75	102	116,363
Grant income	3,759	35,814	-	39,573
Interest expense	(365,655)	-	-	(365,655)
Bad debt	(36,001)	-	-	(36,001)
Total nonoperating revenue (expense)	(281,711)	35,889	102	(245,720)
Net Income before contributions and transfers	582,979	(5,855)	7,997	585,121
Transfers from other funds	2,176,500	-	-	2,176,500
Transfers to other funds	(1,899,528)	-	-	(1,899,528)
Change in net position	859,951	(5,855)	7,997	862,093
Net position-beginning of year	6,052,732	1,329,887	25,642	7,408,261
Prior period adjustment	529,214	-	-	529,214
Net position-end of year	\$ 7,441,897	\$ 1,324,032	\$ 33,639	\$ 8,799,568

City of Cleveland, Oklahoma
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2020

	Municipal Authority	Airport Authority	Education Facility Funds
Cash flows from operating activities:			
Receipts from customers/patients	\$ 3,570,606	\$ 9,000	\$ 7,895
Payments to suppliers	(1,853,505)	(296)	-
Payments to employees	(832,022)	-	-
Net cash provided (used) by operating activities	885,079	8,704	7,895
Cash flows from non-capital financing activities:			
Transfers from other funds	2,176,500	-	-
Transfers to other funds	(1,899,528)	-	-
Receipts from nonoperating income and contributions	145,884	35,814	-
Net cash provided (used) by non-capital financing activities	422,856	35,814	-
Cash flows from capital and related financing activities:			
Purchases of capital assets	(1,160,547)	(47,349)	-
Proceeds from issuance of debt	48,033	-	-
Principal paid on capital debt	(326,475)	-	-
Interest paid on capital debt	(365,655)	-	-
Net cash provided (used) by capital and related financing activities	(1,804,644)	(47,349)	-
Cash flows from investing activities:			
(Purchase) of investments	(7,481,988)	-	-
Investment income	116,186	76	102
Net cash provided (used) by investing activities	(7,365,802)	76	102
Net increase (decrease) in cash and cash equivalents	(7,862,511)	(2,755)	7,997
Cash & cash equivalents, June 30, 2019	9,181,222	24,906	25,642
Cash & cash equivalents, June 30, 2020	\$ 1,318,711	\$ 22,151	\$ 33,639
Cash, including time deposits	\$ 449,553	\$ -	-
Restricted cash, including time deposits	869,158	22,151	33,639
Total cash and cash equivalents, end of year	\$ 1,318,711	\$ 22,151	\$ 33,639
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ 864,690	\$ (41,744)	\$ 7,895
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	293,884	50,448	-
Provision for bad debt	(36,001)	-	-
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(275,178)	-	-
(Increase) decrease in other assets	82,800	-	-
Increase (decrease) in accounts payable	(7,569)	-	-
Increase (decrease) in compensated absences	(37,547)	-	-
Total adjustments	20,389	50,448	-
Net cash provided (used) by operating activities	\$ 885,079	\$ 8,704	\$ 7,895

City of Cleveland, Oklahoma
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2020

	Capital Improvement	Cemetery Trust	Police Operations	Fire Operations	Feyodi Park	Total Non-Major Funds
ASSETS						
Cash and cash equivalents	\$ 13,006	\$ 116,147	\$ 7,900	\$ 20,560	\$ 86,981	\$ 244,594
Investments	-	-	-	-	-	-
Total assets	<u>\$ 13,006</u>	<u>\$ 116,147</u>	<u>\$ 7,900</u>	<u>\$ 20,560</u>	<u>\$ 86,981</u>	<u>\$ 244,594</u>
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued vacation payable	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES						
Restricted	13,006	116,147	-	-	-	129,153
Committed	-	-	7,900	20,560	86,981	115,441
Total fund balances	<u>13,006</u>	<u>116,147</u>	<u>7,900</u>	<u>20,560</u>	<u>86,981</u>	<u>244,594</u>
Total liabilities and fund balances	<u>\$ 13,006</u>	<u>\$ 116,147</u>	<u>\$ 7,900</u>	<u>\$ 20,560</u>	<u>\$ 86,981</u>	<u>\$ 244,594</u>

City of Cleveland, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
June 30, 2020

	Capital Improvement	Cemetery Trust	Police Operations	Fire Operations	Feyodi Park	Total Non-Major Funds
REVENUES						
Charges for services	\$ -	\$ 1,500	\$ 3,721	\$ -	\$ -	\$ 5,221
Intergovernmental revenue	-	-	-	6,570	59,576	66,146
Rental income	-	-	-	-	4,800	4,800
Royalties	-	-	-	-	-	-
Donations	-	-	500	2,700	2,000	5,200
Interest income	43	1,995	27	56	156	2,277
Other income	-	-	442	-	-	442
Total revenues	43	3,495	4,690	9,326	66,532	84,086
EXPENDITURES						
Public safety and judiciary:						
Police	-	-	5,977	-	-	5,977
Fire	-	-	-	-	-	-
Total public safety and judiciary	-	-	5,977	-	-	5,977
Cultural, parks and recreation:						
Parks	-	-	-	-	9,298	9,298
Library	-	-	-	-	-	-
Total cultural, parks and recreation	-	-	-	-	9,298	9,298
Capital outlay	-	-	-	-	-	-
Total expenditures	-	-	5,977	-	9,298	15,275
Excess (deficiency) of revenues over expenditures	43	3,495	(1,287)	9,326	57,234	68,811
OTHER FINANCING SOURCES (USES)						
Transfers in/(out)	-	-	(461)	-	(7,500)	(7,961)
Total other financing sources and uses	-	-	(461)	-	(7,500)	(7,961)
Net change in fund balances	43	3,495	(1,748)	9,326	49,734	60,850
Fund balances - beginning	12,963	119,551	9,648	11,234	37,247	190,643
Prior period adjustment	-	(6,899)	-	-	-	(6,899)
Fund balances - ending	\$ 13,006	\$ 116,147	\$ 7,900	\$ 20,560	\$ 86,981	\$ 244,594

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. A. Reporting Entity

The City of Cleveland, Oklahoma (the "City") is organized under the statutes of the State of Oklahoma. The City operates under a council form of government and is governed by a five-member board of commissioners. The commissioners elect the mayor from their own body. The City provides the following services as authorized by its charter: general government, public safety (fire and police), streets, public works (gas, water, sewer, and sanitation), judicial, culture, parks and recreation, public improvements and planning and zoning for the City of Cleveland, Oklahoma.

As required by accounting principles generally accepted in the United States of America, these financial statements present the activities of the City and its component units and trusts, entities for which the City is considered to be financially accountable. Blended component units and trusts, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with the data of the primary government.

Due to restrictions of the state constitution relating to the issuance of municipal debt, public trusts are created to finance City services with revenue bonds or other non-general obligation financing and provide for multi-year contracting. Financing services provided by these public trusts are solely for the benefit of the City. Public trusts created to provide financing services are blended into the City's primary government as an integral part of City operations although retaining separate legal identity. Component units that do not meet the criteria from blending are reported discretely.

Blended Component Units Reported with Primary Government:

The Cleveland Municipal Authority (CMA) was created pursuant to a Trust Indenture for the benefit of the City of Cleveland, Oklahoma. CMA was established to acquire, construct, develop, equip, operate, maintain, repair, enlarge and remodel water, sewer and natural gas facilities for the City of Cleveland. The water, sanitary sewer, natural gas, and solid waste disposal systems owned by the City have been leased to CMA until such date that all indebtedness of the Authority is retired or provided for. CMA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes 1991, Section 176, et seq., and is governed by a board consisting of five trustees identical with the City Council. CMA is exempt from State and Federal Income taxes. CMA is reported as an enterprise fund.

The Cleveland Airport Authority (CAA) is a public trust which operates the municipal airport facilities. The City is named as the beneficiary of the CAA.

The Cleveland Educational Facilities Authority (CEFA) was created by Trust Indenture dated May 12, 2016, under the provisions of Title 60, Oklahoma Statutes 2011, Sections 176 to 180.3, inclusive. The Trust was created generally to promote the development of educational, recreational and cultural activities within and near the territorial limits of the City and to thereby provide educational, recreational and cultural facilities which will benefit and strengthen culture and the economy of the City of Cleveland, Oklahoma. The Authority is exempt from State and Federal Income taxes. The Authority issued 2016 General Obligation Bonds for the purpose of constructing, equipping, repairing and remodeling school buildings, acquiring school furniture, fixtures and equipment and acquiring and improving school sites.

Excluded Entities:

The Cleveland Hospital Authority (CHA) receives a portion of sales tax collected (one cent) from the City as approved by a vote of the citizens. However, the City has determined that the Hospital does not meet the criteria for inclusion in its basic financial statements since the City is not financially accountable and the hospital does not otherwise meet the requirements of GASB Statement No. 14 for inclusion. Copies of the audited financial statements can be obtained from the Hospital Authority, 1401 W. Pawnee Street, Cleveland, OK 74020.

I. B. Measurement Focus, Basis of Accounting and Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are normally prepared using the accrual basis of accounting.

Government-wide Financial Statements — The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the city, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements — During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at a more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting — The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds — are used to account for the government's general government activities. The City presents its governmental activities in accordance with generally accepted accounting principles (GAAP). GAAP requires that governmental fund types would use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under that basis of accounting, revenues would be recognized when susceptible to accrual (i.e., when they become measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. GAAP provides that all revenues are available if they are collected within 60 days after year-end. For GAAP, expenditures would be recorded when the fund liability is incurred with certain exceptions (general long-term debt and certain compensated absences, claims and judgments).

Sales and use taxes, cigarette taxes, gasoline excise taxes and motor vehicle taxes collected and held by the state and county at year-end on behalf of the City are susceptible to accrual under GAAP.

The following are the City's major governmental funds:

General Fund — is the general operating fund of the City. It accounts and reports for all financial resources not required to be reported in another fund.

Other governmental funds of the City that are considered non-major funds include:

Special Revenue Funds — account for specific revenue sources that are legally restricted or committed to expenditures for specific purposes (not including major capital projects). The following are the City's Special Revenue Funds: Police Operations, Fire Operations, Feyodi Park and Library Memorial.

Capital Projects Fund — account for and report resources that are restricted, committed, or assigned to expenditure for the acquisition or construction of major capital facilities, other than those activities financed by proprietary activities or held in trust for individuals, private organizations or other governments. Capital Project Funds of the City include the Capital Improvement Fund.

Proprietary Funds — are accounted for on the modified cash basis financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Proprietary funds are classified as enterprise.

Enterprise Funds — are used to account for those operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for capital maintenance, public policy or management accountability. The City's major enterprise funds are:

- 1) the Cleveland Municipal Authority which accounts for the operations of providing public works (natural gas, water, sewer, and sanitation) to the City;
- 2) the Cleveland Airport Authority — which accounts for operations of the airport; and a non-major fund which is considered a major by the city
- 3) the Cleveland Educational Facilities Authority — which accounts for the promotion of development of educational, recreational, and cultural activities within and near the territorial limits of the City and to thereby provide educational, recreational, and cultural facilities.

I. C. Assets, Liabilities and Equity

I. C. 1. Deposits and Investments

Oklahoma Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the City can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

For financial statement presentation and for purposes of the statement of cash flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with maturity date of three months or less. Debt instruments with a maturity date of more than three months from date of issue are considered to be investments. Investments are stated at cost.

I. C. 2. Restricted Cash and Investments

The restricted bond fund cash and investments are the result of financial requirements of bond issues and consist of funds held in the Bond Accounts, Bond Sinking Fund Accounts, and Construction Accounts. Under the terms and provisions of the Bond Indenture, these special accounts and reserve funds are maintained with the Trustee bank for the benefit of the holders of the bonds and are not subject to lien or attachment by any other creditors. These accounts and reserve funds are to be maintained so long as the respective bonds are outstanding. Monies contained in the accounts and reserve funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the trust indenture. In addition, certain funds are restricted for Cemetery land acquisitions and for the payment of specific expenditures.

I. C. 3. Fair Value of Financial Instruments

The City's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. The City's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

I. C. 4. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. C. 5. Interfund Balances

Generally, outstanding balances between funds reported and due to/due from other funds include outstanding charges by one fund to another for services or goods or miscellaneous receivables/payables between funds. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year and are described as due to/due from other funds.

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. Recurring transfers for operational purposes are classified as "operating transfers", while non-recurring transfers of equity are reported as "residual equity transfers".

I. C. 6. Inventories

Inventories in governmental funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of such inventories are recorded as expenditures when consumed. Inventories in the proprietary funds consist primarily of natural gas in storage. Inventory is valued on the average-cost basis.

I. C. 7. Capital Assets

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements:

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost, if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the asset value or materially extend the useful life of the assets are not capitalized. The City has established a capitalization limit of \$2,500.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Proprietary fund and similar component unit fixed assets are recorded in the respective funds or component units and depreciated using the straight-line method. When proprietary fund fixed assets are disposed, the cost and applicable accumulated depreciation is removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are as follows:

- | | |
|----------------------------------|-------------|
| • Buildings | 15-40 years |
| • Machinery and equipment | 7-10 years |
| • Water and sewer infrastructure | 35-40 years |
| • Gas line and equipment | 10-40 years |
| • Infrastructure | 50 years |

Fund Financial Statement:

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

I. C. 8. Compensated Absences

It is the City's policy to permit full-time employees to accumulate earned but unused vacation time based on their length of service. Employees may carry forward ten days (80 hours) to the next calendar year. Vacation leave which is unused and vested to the employee is payable upon separation of employment in good standing. Full-time employees may accumulate sick leave based on their length of service, up to a maximum of 120 working days of accrued leave. Unused sick leave is payable to an employee upon separation of employment at a buy back of 1 day for every 4 days. The accumulated buy back will not exceed a total of 30 days. Accrued compensated absences are recorded on the Statement of Net Position.

I. C. 9. Long-term Obligations

In the government-wide and proprietary financial statements, outstanding debt is reported as a liability.

I. C. 10. Net position/Fund Balance

In the government-wide financial statement, net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when limitations on its use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e., fund balance associated with assets that are *not in spendable form*, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

Committed fund balance represents amounts that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment. The City Ordinance is the highest level of decision-making authority of the City.

Assigned fund balance represents amounts that are *intended* to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

I. C. 11. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets and liabilities, the statement of financial position and the governmental fund balance sheet may report separate sections of deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period which will not be recognized as an outflow of resources until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period which will not be recognized as an inflow of resources until that time.

I. C. 12. Resource Use Policy

It is in the City's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the City considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the City's policy that when an expenditure/expense is incurred for purposes for which committed, assigned, or unassigned resources, including fund balances, are available, the City considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts.

I. D. Revenues, Expenditures, and Expenses

I. D. 1. Sales Tax

The City levied a 3.25% sales tax on taxable sales within the City. The sales tax is collected by the Oklahoma Tax Commission and remitted to the City in the month following receipt by the Tax Commission. A portion of the sales tax received is restricted as to the use. The unrestricted portion (3%) is recorded as sales tax revenue within the General Fund. The remaining 0.25% is restricted for improvements to the City's water and sewer system. It is and recorded as sales tax revenue in the Half-Cent Sales Tax fund. The restricted portion of the sales tax expires on October 1, 2020.

I. D. 2. Charges for Services

Program revenues reported with governmental activities include charges for services like permits and fees, park charges, and fines and forfeitures. Business-type activity charges for services include all operating income of proprietary funds.

The operations of the utility departments of the City (natural gas, water, sewer, and sanitation) were transferred to the Cleveland Municipal Authority. The Municipal Authority provides utility services for its

customers including the City of Cleveland and its related departments.

I. D. 3. Grants and Contributions

Governmental grants and contributions primarily consist of grants from Federal and state agencies. The nature of the grant determines if it is reported as operating or capital program revenues.

Business-type activity grants and contributions include donations from others as well as grants from Federal and state agencies.

I. E. Budgets and Budgetary Accounting

Budget Policy and Practice

The City Clerk submits an annual budget to the City Council in accordance with the Oklahoma Municipal Budget Act. The budget is presented to the Council for review, and public hearings are held to address priorities and the allocation of resources. In June, the Council adopts the annual fiscal year budgets for City operating funds. Budget amendments or supplements may be made during the year when unexpected modifications are required in estimated revenues and appropriations. Budget amendments are recommended by the City Clerk and must be approved by the Council. Public trusts submit budgets and other planning documents to their respective governing bodies. Other funds budgeted on a project-length basis are also subjected to the Council review and approval process.

Budgetary Control

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and object class as follows: personal services, other services and charges, supplies, capital outlay, transfers, and debt service. This legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Budget revisions at this level are subject to final review by the City Council. Within these control levels, management may transfer appropriations without Council approval. Revisions to the budget were made throughout the year.

Budget Basis of Accounting

The combined statement of revenues, expenditures and changes in fund balances (budget and actual) present comparisons of legally adopted budgets with actual data on a budgetary basis. The budgetary basis of accounting differs from GAAP in that the cash basis of accounting is used. Revenues are budgeted in the year receipt is expected; and expenditures, which include encumbrances, are budgeted in the year that the applicable purchase orders are expected to be issued. All appropriations (including encumbered) lapse at year-end; any open encumbrances to be honored in the subsequent budget year are reappropriated in the next fiscal year's budget. As a result, no reserve for encumbrances is reported at year-end.

The budget amounts shown in the financial statements are the final authorized amounts as amended during the year.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as local government unit, the City and its component units are subject to various federal, state and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows:

II. A. Deficit Fund Net Position/Fund Balance

Deficits resulting from accrual reporting do not constitute violations of Oklahoma State Statutes.

The City reported no deficit fund balances or net position for the fiscal year.

II. B. Budget Requirements

For the year ended June 30, 2020, the City did not materially overspend in any department-level category.

II. C. Debt Covenants

The long term debt held by the Cleveland Municipal Authority contains a number of covenants which are related to financial matters. The most significant of which is the Debt Service Coverage, whereby, pledged revenues less operating expenses shall provide Net Revenues Available for Debt Service equal to 1.25 times average annual debt service on the respective notes for the Authority. Refer to footnote V for discussion of long term debt.

II. D. Revenue Restrictions

The City has various restrictions placed over certain revenue sources from state or local or administrative requirements. The primary restricted revenue sources include:

REVENUE SOURCE	LEGAL RESTRICTIONS OF USE
Gasoline Excise/Commercial Vehicle Tax	Street and Alley Purposes
Cemetery Revenue (12.5%)	Cemetery Capital Improvements
Sales Tax (.25%)	Water and sewer system improvements

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

III. A. Deposits and Investments

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's deposits are secured by collateral values at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC). Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service.

At June 30, 2020, the City held deposits of approximately \$10,008,304 at financial institutions. The City's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the City or by its agent in the City's name.

Investment Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The City has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

<u>Types of Investments</u>	Primary Government			
	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings (1)</u>	<u>Weighted Average Days to Maturity (2)</u>
Primary government				
<u>INVESTMENTS:</u>				
Certificates of deposit	\$ 228,032	\$ 228,032	N/A	94
Money market	7,835,908	7,835,908	AAA	NA
Total investments	<u>8,063,940</u>	<u>8,063,940</u>		
Total primary government investments	<u>\$ 8,063,940</u>	<u>\$ 8,063,940</u>		

RECONCILIATION TO STATEMENT OF NET POSITION

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Investments, restricted	\$ 82,661	\$ 7,981,279	\$ 8,063,940
Total investments	<u>\$ 82,661</u>	<u>\$ 7,981,279</u>	<u>\$ 8,063,940</u>

(1) Ratings are provided where applicable to indicate associated Credit Risk. N/A indicates not applicable.

(2) Interest rate risk is estimated using either duration or weighted average days to maturity depending on the respective policy.

IV. Capital Assets

A summary of the changes in the governmental activities' capital assets at June 30, 2020 follows:

	Primary Government		
	Balance at July 1, 2019	Additions	Balance at June 30, 2020
<i>Governmental Activities</i>			
Land and construction in process	\$ -	\$ -	\$ -
Machinery, furniture, & equipment	-	23,744	23,744
Infrastructure & improvements	5,296,949	315,105	5,612,054
Total	\$ 5,296,949	\$ 338,849	\$ 5,635,798
Less accumulated depreciation	3,690,436	270,425	3,960,861
Governmental fixed assets, net	\$ 1,606,513	\$ 68,424	\$ 1,674,937
<i>Business-type Activities</i>			
Land and construction in process	\$ 1,617,575	\$ 899,420	\$ 2,516,995
Machinery, furniture, & equipment	1,065,856	68,273	1,134,129
Infrastructure & improvements	11,809,231	240,203	12,049,434
Total	\$ 14,492,662	\$ 1,207,896	\$ 15,700,558
Less accumulated depreciation	6,989,783	344,332	7,334,115
Business-type fixed assets, net	\$ 7,502,879	\$ 863,564	\$ 8,366,443
Total primary government	\$ 9,109,392	\$ 931,988	\$ 10,041,380

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against its operations. Depreciation expense was charged to functions in the statement of activities as follows:

Primary Government			
Governmental Activities		Business-type Activities	
General government	\$ 22,863	Administration	\$ 41,458
Public safety & judiciary	63,708	Water	166,082
Transportation	48,518	Sewer	82,510
Culture, parks and recreation	135,336	Gas	3,833
		Airport	50,449
Total depreciation expense	\$ 270,425	Total depreciation expense	\$ 344,332

V. Long-term Debt

The City's long-term debt is described below.

NOTES PAYABLE:

Cleveland Municipal Authority

On March 15, 2015, the Authority issued a note payable to American Heritage Bank in the amount of \$450,000 for new city hall. Interest is 3% on the note and late payment charges if necessary. Payments began April, 2015 and will continue monthly in the amount of \$3,118.99. The note is secured by the property purchased.	\$ 263,717
On September 29, 2016, the Authority issued a note payable to American Heritage Bank in the amount of \$100,000 for golf course additions. Interest is 5% on the note and late payment charges if necessary. Payments began October, 2016 and will continue monthly in the amount of \$971. The note is secured by the property purchased.	61,434
On September 1, 2017, the Authority issued a note payable to American Heritage Bank in the amount of \$100,000 for building purchase. Interest is 5% on the note and late payment charges if necessary. Payments began September 2017 and will continue monthly in the amount of \$740.02. The note is secured by the property purchased.	73,248
On January 28, 2019, the Authority issued a note payable to Indian Electric Cooperative, Inc. in the amount of \$200,000 to improve the library. Interest is 1% on the note. Payments are to begin on February 20, 2019 and will continue monthly in the amount of \$2,466.25. The note is secured by a letter of credit from the American Heritage Bank of Mannford.	160,645
On July 18, 2018, the Authority issued a note payable to American Heritage Bank in the amount of \$1,020,000 for the swimming pool upgrade. Interest is 3.25% on the note and late payment charges if necessary. Varying semi-annual payments begin February 1, 2019 and will continue until August 1, 2025. The note is secured by the property purchased.	820,000
On December 13, 2019, the Authority issued a note payable to American Heritage Bank in the amount of \$48,033 for a 2019 Ford truck. Interest is 2.59% on the note and late payment charges if necessary. Monthly payments are made on the debt. The note matures 48 months from origination, December 2023. The note is secured by the property purchased.	37,444
On July 18, 2018, the Authority issued a bond payable to Oklahoma Water Resources Board in the amount of \$7,660,000 for Water System Project. Interest varies on the note and late payment charges if necessary. Varying semi-annual payments begin September 15, 2019 and will continue until September 15, 2038. The note is secured by the property purchased.	7,560,000
	<u>\$ 8,976,488</u>

CITY OF CLEVELAND, OKLAHOMA
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The following is a summary of changes in long-term debt for the year ended June 30, 2020:

Type of Debt	Balance at July 1, 2019 *	Amount Issued	Amount Retired	Balance at June 30, 2020	Due Within One Year
Business-type activities:					
Public Works Authority					
American Heritage: Pool Project	\$ 955,000	\$ -	\$ 135,000	\$ 820,000	\$ 113,015
American Heritage: City Hall	298,451	-	34,734	263,717	28,217
Indian Electric: Library	188,483	-	27,838	160,645	28,117
American Heritage: Chamber	81,669	-	8,421	73,248	5,543
American Heritage: Golf Course	71,327	-	9,893	61,434	9,716
American Heritage: 2019 Turck	-	48,033	10,589	37,444	11,683
OWRB	7,660,000	-	100,000	7,560,000	165,000
Total business-type debt	\$ 9,254,930	\$ 48,033	\$ 326,475	\$ 8,976,488	\$ 361,291

* Restated from prior year

The annual debt service requirements to maturity, including principal and interest, for long-term debt are as follows.

Year Ending June 30	Public Works Authority			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2021	\$ 196,291	\$ 43,909	\$ 165,000	\$ 312,484
2022	201,993	38,207	175,000	307,044
2023	207,873	32,326	180,000	299,564
2024	202,728	26,289	190,000	289,944
2025	207,216	20,330	200,000	279,804
2026-2030	393,916	23,407	1,855,000	1,177,864
2031-2035	6,471	490	2,450,000	727,199
2036-2040	-	-	2,345,000	190,989
Totals	\$ 1,416,488	\$ 184,958	\$ 7,560,000	\$ 3,584,891

Conduit Debt:

The Cleveland Education Facilities Authority issued \$9,500,000 of the Educational Facilities Lease Revenue Bonds in 2016, for the benefit of the Cleveland Public Schools. The property, upon which the Project is located, together with improvements, is leased by the School District to the Authority and then subsequently subleased by the Authority back to the District. The bonds are secured by an

assignment of the lease revenues and the property leased and subleased.

This debt is considered non-commitment (conduit) debt to the City and the Authority since the debt payments are made solely from direct financing lease payments. Payments are made by the Cleveland Public Schools to trustee banks that pay the bondholders. In the event of default by the Schools, the City or Authority has no obligation, legally and in substance, to make any payments on the debt since the lease receivable, financing agreements and mortgages on the property with the School are the security for the debt.

VI. Interfund Transactions

Intercompany balances reported on the Statement of Net Position for the year ended June 30, 2020 were as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
GOVERNMENTAL ACTIVITIES		
<i>GENERAL FUND</i>		
CAPITAL PROJECTS	\$ -	\$ 276,972
NON-MAJOR FUNDS	7,986	-
<i>CAPITAL PROJECTS</i>		
GENERAL FUND	276,972	-
NON-MAJOR FUNDS	-	413,137
<i>NON-MAJOR FUNDS</i>		
GENERAL FUND	-	7,986
PUBLIC WORKS AUTHORITY	864,058	111,633
BUSINESS-TYPE ACTIVITIES		
<i>PUBLIC WORKS AUTHORITY</i>		
GENERAL FUND	-	-
NON-MAJOR FUNDS	404,770	744,058
	<u>\$ 1,553,786</u>	<u>\$ 1,553,786</u>

VII. RETIREMENT PLANS

The City participates in four retirement plans as follows:

<u>Name of Plan</u>	<u>Type of Plan</u>
Oklahoma Municipal Retirement Fund	Agent Multiple Employer – Defined Benefit Plan
Oklahoma Police Pension and Retirement Fund	Cost Sharing Multiple Employer – Defined Benefit Plan
Oklahoma Firefighter Pension and Retirement Fund	Cost Sharing Multiple Employer – Defined Benefit Plan
Oklahoma Municipal Retirement Fund	Deferred Compensation Plan

VII. A. Oklahoma Police Pension and Retirement Systems

Plan description – The City of Cleveland, as the employer, participates in the Oklahoma Police Pension and Retirement Plan – a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Police Pension and Retirement System (OPPRS). Title 11 of the Oklahoma State Statutes, through the Oklahoma Legislature, grants the authority to establish and amend the benefit terms to the OPPRS. OPPRS issues a publicly available financial report that can be obtained at www.ok.gov/OPPRS.

Benefits provided – OPPRS provides retirement, disability, and death benefits to members of the plan. The normal retirement date under the Plan is the date upon which the participant completes 20 years of credited service, regardless of age. Participants become vested upon completing 10 years of credited service as a contributing participant of the Plan. No vesting occurs prior to completing 10 years of credited service. Participants' contributions are refundable, without interest, upon termination prior to normal retirement. Participants who have completed 10 years of credited service may elect a vested benefit in lieu of having their accumulated contributions refunded. If the vested benefit is elected, the participant is entitled to a monthly retirement benefit commencing on the date the participant reaches 50 years of age or the date the participant would have had 20 years of credited service had employment continued uninterrupted, whichever is later.

Monthly retirement benefits are calculated at 2.5% of the final average salary (defined as the average paid base salary of the officer over the highest 30 consecutive months of the last 60 months of credited service) multiplied by the years of credited service, with a maximum of 30 years of credited service considered. Monthly benefits for participants due to permanent disability incurred in the line of duty are 2.5% of the participants' final average salary multiplied by 20 years. This disability benefit is reduced by stated percentages for partial disability based on the percentage of impairment. After 10 years of credited service, participants who retire due to disability incurred from any cause are eligible for a monthly benefit based on 2.5% of their final average salary multiplied by the years of service. This disability benefit is also reduced by stated percentages for partial disability based on the percentage of impairment. Effective July 1, 1998, once a disability benefit is granted to a participant, that participant is no longer allowed to apply for an increase in the dollar amount of the benefit at a subsequent date.

Survivor's benefits are payable in full to the participant's beneficiary upon the death of a retired participant. The beneficiary of any active participant killed in the line of duty is entitled to a pension benefit.

Contributions – The contributions requirements of the Plan are at an established rate determine by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 8% percent of their annual pay. Participating cities are required to contribute 13% of the employees' annual pay. Contributions to the pension plan from the City were \$41,658.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2019, the City reported an asset of \$5,930 for its proportionate share of the net pension asset. The net pension asset was measured as of July 1, 2018, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2018. The City's proportion of the net pension asset was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2018. Based upon this information, the City's proportion was 0.00929%.

For the year ended June 30, 2019, the City recognized pension expense of \$44,889. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF CLEVELAND, OKLAHOMA
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	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 3,559	\$ 27,997
Changes of assumptions	15,141	-
Net difference between projected and actual earnings on pension plan investments	98,732	44,546
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	41,658	-
Total	<u>\$ 159,090</u>	<u>\$ 72,543</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2020	\$ 67,393
2021	(7,904)
2022	8,639
2023	17,837
2024	581
Total	<u>\$ 86,547</u>

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2019, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	3%
Salary increases:	4.5% to 17.0% average, including inflation
Investment rate of return:	7.5% net of pension plan investment expense, per annum, compounded annually
Mortality rates:	Active employees (pre-retirement) RP-2000 Blue Collar Healthy Combined table with age set back 4 years with fully generational improvement using Scale AA.
Active employees (post- retirement) and nondisabled pensioners:	RP-2000 Blue Collar Healthy Combined table with fully generational Improvement using scale AA.
Disabled pensioners:	RP-2000 Blue Collar Healthy Combined table with age set forward 4 years with fully generational improvement using Scale AA.

The actuarial assumptions used in the July 1, 2019, valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2017.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	4.79%
Domestic equity	5.74%
International equity	9.19%
Real Estate	7.99%
Private Equity	10.2%
Other assets	3.50%

The current allocation policy is that approximately 60% of assets in equity instruments, including public equity, long-short hedge, venture capital, and private equity strategies; approximately 25% of assets in fixed income to include investment grade bonds, high yield and non-dollar denominated bonds, convertible bonds, and low volatility hedge fund strategies; and 15% of assets in real assets to include real estate, commodities, and other strategies.

Discount Rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, determined by State statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 14% of the insurance premium, as established by statute. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the employers calculated using the discount rate of 7.5%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
City's proportionate share of the net pension liability/(asset)	252,603	(5,930)	(224,523)

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the OPPRS, which can be located at www.ok.gov/OPPRS.

VII. B. Oklahoma Firefighter's Pension and Retirement Systems

Plan Description – The City of Cleveland, as the employer, participates in the Firefighters Pension & Retirement – a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Firefighters Pension & Retirement System (FPRS). Title 11 of the Oklahoma State Statutes grants the authority to establish and amend the benefit terms to the FPRS. FPRS issues a publicly available financial report that can be obtained at www.ok.gov/fprs.

Benefits provided – FPRS provides retirement, disability and death benefits to members of the plan.

Benefits for members hired prior to November 1, 2013 are determined as 2.5 percent of the employee's final average compensation times the employee's years of service and have reached the age of 50 or have completed 20 years of service, whichever is later. For volunteer firefighters, the monthly pension benefit for normal retirement is \$150.60 per month. Benefits vest with 10 years or more service.

CITY OF CLEVELAND, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Benefits for members hired after November 1, 2013 are determined as 2.5 percent of the employee's final average compensation times the employee's years of service and have reached the age of 50 or have completed 22 years of service, whichever is later. For volunteer firefighters, the monthly pension benefit for normal retirement is \$165.66 per month. Benefits vest with 11 years or more service.

All firefighters are eligible for immediate disability benefits. For paid firefighters, the disability in-the-line-of-duty benefit for firefighters with less than 20 years of service is equal to 50% of final average monthly compensation, based on the most recent 30 months of service. For firefighters with over 20 years of service, a disability in-the-line-of-duty is calculated based on 2.5% of final average monthly compensation, based on the most recent 30 months, per years of service, with a maximum of 30 years of service. For disabilities not-in-the-line-of-duty, the benefit is limited to only those with less than 20 years of service and is 50% of final average monthly compensation, based on the most recent 60-month salary as opposed to 30 months. For volunteer firefighters, the not-in-the-line-of-duty disability is also limited to only those with less than 20 years of service and is \$7.53 per year of service. For volunteer firefighters, the in-the-line-of-duty pension is \$150.60 with less than 20 years of service, or \$7.53 per year of service, with a maximum of 30 years.

A \$5,000 lump sum death benefit is payable to the qualified spouse or designated recipient upon the participant's death. The \$5,000 death benefit does not apply to members electing the vested benefit.

Contributions – The contributions requirements of the Plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 9% of their annual pay. Participating cities are required to contribute 14% of the employees' annual pay. Contributions to the pension plan from the City were \$27,294 (fiscal year contributions).

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2019, the City reported a liability of \$709,410 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018. The City's proportion of the net pension liability was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2019. Based upon this information the City's proportion was 0.0067137%.

For the year ended June 30, 2019, the City recognized pension expense of \$111,361. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 118,790	\$ 14,430
Changes of assumptions	-	18,224
Net difference between projected and actual earnings on pension plan investments	27,248	78,601
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	27,294	-
Total	<u>\$ 173,332</u>	<u>\$ 111,255</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF CLEVELAND, OKLAHOMA
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Year ended June 30:		
2020	\$	47,093
2021		(2,297)
2022		14,264
2023		5,506
2024		(2,489)
Total	\$	62,077

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2018, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	3%
Salary increases:	3.5% to 9.0% average, including inflation
Investment rate of return:	7.5% net of pension plan investment expense

Mortality rates were based on the RP2000 combined healthy with blue collar adjustment as appropriate, with adjustments for generational mortality improvement using scale AA for healthy lives and no mortality improvement for disabled lives.

The actuarial assumptions used in the July 1, 2019, valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2017.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	20%	4.90%
Domestic equity	37%	7.07%
International equity	20%	9.19%
Real Estate	10%	7.99%
Other assets	13%	5.57%

Discount Rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, determined by State statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 36% of the insurance premium, as established by statute. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the employers calculated using the discount rate of 7.5%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percent point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

- of vesting.
- Disability retirement upon total and permanent disability with 10 years of service.
 - Death benefits with 10 years of vesting service, if married, 50% of accrued benefit payable to spouse until death or remarriage, if single, 50% of the accrued benefit is payable for 10 years certain. Before vesting, return of contributions with interest, if any.
- e. Benefit Determination Base Final average salary – the average of the five highest consecutive annual salaries out of the last 10 years of service.
- f. Benefit Determination Methods:
- Normal Retirement 3% of final average compensation multiplied by the number of years of credited service.
 - Early Retirement Payable starting at normal retirement or the accrued benefit reduced 5% per year for commencement prior to normal retirement age.
 - Disability Retirement Payable upon disablement without reduction for early payment
 - Death Benefit 50% of employee's accrued benefit, see above
 - Prior to 10 Years Service Return of employee contributions with accrued interest.
- g. Form of Benefit Payments Normal form of payment of the accrued benefit is a monthly lifetime annuity with 10 years certain. Other retirement benefits are available under actuarially equivalent optional forms.

Employees Covered by Benefit Terms

Active Employees	14
Disabled Participants	3
Retirees or Retiree Beneficiaries	<u>11</u>
Total	<u>28</u>

Actuarial Assumptions

- a. Date of last Actuarial Valuation March 2020
- b. Significant Actuarial Assumptions Used:
- 1. Rate of Return on Investments 7.5% per annum
 - 2. Pay increases Rates by age
 - 3. Retirement Age Rates by age
 - 4. Mortality Table UP 1994 mortality (projected)
 - 5. Asset Value Actuarial method
- c. Actuarial cost method Entry age normal
- d. Date of last experience study Sept 2017 for fiscal years 2012 thru

2016

Discount Rate – The discount rate used to value benefits was the long-term expected rate of return on plan investments, 7.75% since the plan's net fiduciary position is projected to be sufficient to make projected benefit payments.

The City has adopted a funding method that is designed to fund all benefits payable to participants over the course of their working careers. Any differences between actual and expected experience are funded over a fixed period to ensure all funds necessary to pay benefits have been contributed to the trust before those benefits are payable. Thus, the sufficiency of pension plan assets was made without a separate projection of cash flows.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.0%). Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of July 1, 2019 are summarized in the following table:

	Target Allocation	Real Return	Weighted Return
Large cap stocks - S&P 500	25%	5.40%	1.35%
Small/mid cap stocks - Russell 2500	10%	7.50%	0.75%
Long/short equity - MSCI ACWI	10%	6.10%	0.61%
International stocks - MSCI EAFE	20%	5.10%	1.02%
Fixed income bonds - Barclay's Capital Aggregate	30%	2.60%	0.78%
Real estate - NCREIF	5%	4.80%	0.24%
Cash equivalents - 3 month Treasury	0%	0.00%	0.00%
	100%		
Average Real Return			4.75%
Inflation			3.00%
Long term expected return			7.75%

Changes in Net Pension Liability – The total pension liability was determined based on an actuarial valuation performed as of July 1, 2019 which is also the measurement date. There were no changes in assumptions or changes in benefit terms that affected measurement of the total pension liability. There were also no changes between the measurement date of July 1, 2019 and the City's report ending date of June 30, 2020, that would have had a significant impact on the net pension liability.

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the City, calculated using the discount rate of 7.5 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Town's proportionate share of the net pension liability/(asset)	1,252,600	897,955	594,193

The City reported \$252,797 in pension expense for the year ended June 30, 2020.

CITY OF CLEVELAND, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 69,321	\$ 1,537
Changes of assumptions	78,024	-
Net difference between projected and actual earnings on pension plan investments	45,456	42,302
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	-
Town contributions subsequent to the measurement date	159,075	-
Total	<u>\$ 351,876</u>	<u>\$ 43,839</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2021	\$ 243,496
2022	28,529
2023	32,576
2024	3,436
2025	-

VII. D. Deferred Compensation Plan

The Cleveland Municipal Authority (CMA) and the City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all CMA and City employees, permits them to defer a portion of their salary until future years. The deferred compensation is available to employees at termination of employment, retirement, death, or an unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries.

VIII. OTHER INFORMATION

VIII. A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; unemployment; and natural disasters. The City purchases commercial insurance to cover these and other risks. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

The City is a member of the Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan), an organization formed for the purpose of providing workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities, including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for all claims submitted to it during the plan year.

As a member of the Plan, the City is required to pay fees set by the Plan according to an established

payment schedule. A Loss Fund has been established from the proceeds of these fees for each participant in the Plan. The State Insurance Fund provides coverage in excess of the Loss Fund so the City's liability for claim loss is limited to the balance of that fund.

VIII. B. Contingent Liabilities

The City is a defendant in legal actions arising from normal governmental activities. Most of these actions are covered by insurance. Although the outcome of these lawsuits is not presently determinable, management believes that the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

VIII. B. Prior Period Adjustment

A prior period adjustment is reported in the Governmental Fund in the amount of \$2,676,711. This adjustment reflects the accrual of the pension plan obligations under GASB 68 *Accounting and Financial Reporting for Pensions*, accrual of tax receipts, and payroll liabilities. Business-type activities report a prior period adjustment of \$529,214 to adjust capital asset balances, notes payable, and meter liabilities.

City of Cleveland, Oklahoma
General Fund
Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2020

	Original Budget	Revisions	Revised Budget	Actual	Variance - Favorable (Unfavorable)
REVENUES					
Taxes	\$ 2,096,000	\$ -	\$ 2,096,000	\$ 2,455,884	\$ 359,884
Licenses & permits	3,000	-	3,000	5,031	2,031
Fines and forfeitures	157,000	-	157,000	84,336	(72,664)
Charges for services	139,000	-	139,000	119,336	(19,664)
Intergovernmental	118,000	-	118,000	28,535	(89,465)
Other revenues	187,000	-	187,000	132,241	(54,759)
Total revenues	2,700,000	-	2,700,000	2,825,363	125,363
EXPENDITURES					
General government:					
General government	172,000	2,000	174,000	96,010	77,990
Treasurer	7,000	-	7,000	6,300	700
Total general government	179,000	2,000	181,000	102,310	78,690
Public safety and judiciary:					
Police	593,000	6,000	599,000	573,184	25,816
911	52,000	-	52,000	53,579	(1,579)
Fire	398,000	-	398,000	338,939	59,061
Attorney	30,000	-	30,000	27,933	2,067
Municipal court	85,000	-	85,000	75,011	9,989
Total public safety and judiciary	1,158,000	6,000	1,164,000	1,068,646	95,354
Transportation:					
Street	160,000	-	160,000	85,914	74,086
Total transportation	160,000	-	160,000	85,914	74,086
Cultural, parks and recreation:					
Parks	178,000	-	178,000	78,934	99,066
Library	148,000	-	148,000	123,361	24,639
Cemetery	67,000	8,000	75,000	40,486	34,514
Total cultural, parks and recreation	393,000	8,000	401,000	242,781	158,219
Ambulance:					
Ambulance	150,000	-	150,000	150,000	-
Total ambulance	150,000	-	150,000	150,000	-
Total expenditures	2,040,000	16,000	2,056,000	1,649,651	406,349
Revenue over (under) expenditures	660,000	(16,000)	644,000	1,175,712	(280,986)
OTHER FINANCING SOURCES (USES)					
Operating transfers in/(out)	(660,000)	16,000	(644,000)	(822,930)	(178,930)
Net other financing sources (uses)	(660,000)	16,000	(644,000)	(822,930)	(178,930)
Revenues and other financing sources over (under) expenditures and other uses	-	-	-	352,782	(459,916)
Fund balance at beginning of year (Non-GAAP budgetary basis)				235,202	235,202
Fund balance at end of year (Non-GAAP budgetary basis)				\$ 587,984	\$ (224,714)
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES					
Revenue and transfer accruals				110,664	
Fund balance at end of year (GAAP basis)				\$ 698,648	

Schedules of Required Supplementary Information

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY Oklahoma Police Pension Retirement Plan Year Ended June 30, 2020

	<u>2020*</u>
City's portion of the net pension liability (asset)	0.0929%
City's proportionate share of the net pension liability (asset)	\$ (5,930)
City's covered-employee payroll	\$ 337,385
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-2%
Plan fiduciary net position as a percentage of the total pension liability	102.47%

* The amounts presented for each fiscal year were determined as of the fiscal year-end that occurred.

SCHEDULE OF CITY CONTRIBUTIONS Oklahoma Police Pension Retirement Plan

	<u>2020*</u>
Contractually required contribution	\$ 41,658
Contributions in relation to the contractually required contribution	<u>(41,658)</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 337,385
Contributions as a percentage of covered-employee payroll	12.35%

Schedules of Required Supplementary Information

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Oklahoma Fire Pension Retirement Plan
Year Ended June 30, 2020

	<u>2020*</u>
City's portion of the net pension liability (asset)	0.0671%
City's proportionate share of the net pension liability (asset)	\$ 709,410
City's covered-employee payroll	\$ 231,447
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	307%
Plan fiduciary net position as a percentage of the total pension liability	-449.84%

* The amount presented for each fiscal year were determined as of the fiscal year-end that occurred pre

SCHEDULE OF CITY CONTRIBUTIONS
Oklahoma Fire Pension Retirement Plan

	<u>2020*</u>
Contractually required contribution	\$ 27,294
Contributions in relation to the contractually required contribution	<u>(27,294)</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 231,447
Contributions as a percentage of covered-employee payroll	11.79%

Schedules of Required Supplementary Information

**SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
Oklahoma Municipal Retirement Plan
SINCE INITIAL APPLICATION**

	<u>2020*</u>
Total pension liability	
Service cost	\$ 88,887
Interest	249,445
Changes in benefit terms	-
Differences between expected and actual experience	73,688
Changes in assumptions	94,292
Benefit payments, including refunds of employee contributions	<u>(233,912)</u>
Net change in total pension liability	\$ 272,400
Total pension liability - beginning	<u>3,440,779</u>
Total pension liability - ending (a)	<u><u>\$ 3,713,179</u></u>
 Plan fiduciary net position	
Contributions - employer	156,045
Contributions - employee	42,558
Net investment income	181,878
Benefit payments, including refunds of employee contributions	(233,912)
Administrative expense	(5,469)
Other	-
Net change in plan fiduciary net position	<u>141,100</u>
 Plan fiduciary net position - beginning	<u>2,674,124</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 2,815,224</u></u>
 City's net pension liability - ending (a) - (b)	<u><u>\$ 897,955</u></u>
 Plan fiduciary net position as a percentage of the total pension liability	75.82%
Covered-employee payroll	\$ 668,926
City's net pension liability as a percentage of covered-employee payroll	134.24%



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council
City of Cleveland, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cleveland, Oklahoma, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Cleveland, Oklahoma's basic financial statements and have issued our report thereon dated June 7, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Cleveland, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Cleveland, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Cleveland, Oklahoma's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cleveland, Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

FSW&B CPAs-PLLC

FSW&B CPAs-PLLC

Stillwater, OK

June 7, 2021